“Laurus Labs Limited Q3 FY2019 Earnings Conference Call”

February 01, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Laurus Labs Q3 FY2019 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Talati from Kotak Securities Limited. Thank you and over to you Sir!

Chirag Talati: Good evening everyone. On behalf of Kotak Securities, I thank the Laurus Management team for giving us the opportunity to host this call. From Laurus, we have with us today Dr. Dr. Satyanarayana Chava, CEO, Ravi Kumar, CFO and Monish Shah from the Investor Relations Team. I hand over the call to the management for their opening remarks. Over to you Sir!

Dr. Satyanarayana Chava: Thank you Chirag. Thank you everyone for taking time out for joining us on our results conference call.

Moving to our business highlights, our net revenues are at Rs.530 Crores for the quarter and Rs.1,657 Crores for nine months ending December 2018 financial year showing the growth of 11% year-on-year basis for both Q3 as well as nine months. All our major segments reported very healthy growth except for ARVs in for Q3, but when we see for nine months even ARVs showed a growth.

I will take you through the major highlights of our business in Q3 as well as the financial year. Most interestingly, we began commercial supplies of Finished Dosage Forms to European market and did Rs.3.5 Crores revenue so far and we have orders for the next nine months to the tune of 400 million units from the CMO partner. Two more CMO products are under validation and we expect commercial supplies to begin in second half of FY2020.

Interestingly, all these CMO finished dosage projects we are using our own API. Another important milestone, was that we started shipping Metformin tables to the US markets, we did start supplies in December 2018 and we expect the billing to the distributor will happen during the next two weeks.

We also received another approval from FDA for hydrochloroquine ANDA and we have started commercial manufacturing and we expect to do some sales in Q1 FY20. We also got approval for TLD from South African as a CMO product for South African Aspen and we also got a Global Fund-ERP approval for TLD. We filed two major products in antiretroviral segment TLE600 and TLE400.

With these we have filed full basket of first line adult treatment in ARV. We transferred our ANDA of Tenofovir to CASI Pharma and we received $2 million in Q3 and remaining amount will be transferred based on the milestones, viz; tech transfer and approval of the same. South African tender results were expected in December 2018 which got postponed to middle of February. By then we expect there will be more clarity on the TLD TEE in South Africa.

We continue to make R&D related investments into FDA. As we were talking our ability to file 10 ANDAs per year was demonstrated. So far we have filed 18 ANDAs, 3 dossiers in Canada, 5 in Europe and 6 with WHO and we also filed 2 dossiers in South Africa and 2 in India and close to 100 dossiers we filed in the Rest of Africa for product approvals.

Out of 18 ANDAs we filed in US, we believe, we have about seven possible FTF opportunities and two PARA IVs with a total addressable market size of more than $10 Billion. We also successfully completed the ANVISA Brazil inspection and have received the approval for the same. As we continue to maintain our approach of product development in global rather than market specific. We strongly believe revenues from FDA business would bring very attractive margins for us in the near future.

We are still very, very optimistic on the ARV API franchisee we expect to maintain and grow single digit despite of several scenarios we evaluated how much of Dolutegravir will aggressively take market share from the Efavirenz. If we lose Efavirenz market share, we gain market share in the Dolutegravir and Lamivudine because Dolutegravir and Lamivudine are not in our current sales, any loss of Efavirenz market share will be compensated by sales of Lamivudine and Dolutegravir, so we strongly believe ARV we will definitely maintain the franchisee at the same level and still we continue to grow.

Moving on to the other opportunities in anti-retroviral we completed validation of all second line ARV API and we can offer a complete basket of APIs now. So far the last financial year, we have been offering first line APIs now we have new baskets of APIs, which will cover the both first line and second line.

We also got DMF approvals from WHO for Dolutegravir and Lamivudine. With that our ability to compensate loss of EFV if at all and also garner more opportunities to bring customers for TLE600 as well as TLE400. We also completed FDA inspection of unit six, which makes intermediate with one procedural observation and we are awaiting EIR.

In Hep-C the quarter was challenging. We saw de-growth and we expect it will go back to Q2 level in Q4 because of our strong order book. Year wise Hep-C will maintain the current levels. We do not see degrowth in the coming quarter. Interestingly Onco APIs our growth was very robust at 31% quarter-on-quarter and almost 20% in nine months FY2019. This increase in sales was predominantly due to expanded capacities and also introduction of new products. We also expect to start commercial sale of two more APIs in FY2020, so we are very optimistic about our future growth in oncology.

Coming to our Synthesis business. Quarter-on-quarter, we grew almost 34%, but we are happy to tell you in the first nine months, we surpassed the revenue of last year, 12 months, so year-on-year for nine months we did cross 51% growth. This was possible because we started commercial supplies from Unit 5 to Aspen and also we got new orders from exiting CMO partners and also with significant increase in RFP, we are confident of this business in the coming years as well.

Ingredients also registered 34% growth quarter-on-quarter and 14% nine months corresponding year. We also started commercial supplies to C2 Pharma for Digoxin and also other products. We are also expanding our portfolio of natural extraction based excipients. Unit 4 expansion will definitely give a lot of boost to our ingredients segment. With that I would like to hand it over to Ravi to share some financial highlights.

V.V. Ravikumar: Thank you Dr. Satya and a very warm welcome to everyone for the Q3 and nine months FY2019 earning call. Before I move to the financial highlights I would like to inform that on slide 14 of investor presentation, the numbers of FDA opex and R&D are net of revenues are recorded in FDF segment on account of ANDA sale to CASI Pharma for $2 million. The total income for the quarter is Rs.530 Crores against 459 Crores, and nine months time we have done Rs.1,657 Crores against 1,496 Crores with 11% growth for the nine months as well as three months.

Our EBITDA margins came around 17%. Our EBITDA margin was higher because of lower expenses compared to Q2. On the raw material prices front we have seen China increasing the prices for some of some of our products. These products are not on the ARV side but in other therapies, but wherever there is an exorbitant price increase, we are trying to develop those products in-house. Our diluted EPS for the quarter is about Rs.1.7 and for nine months it is about 4.8. With the improvement in revenue especially coming from finished dosage forms and synthesis business apart from growth in oncology and other APIs segments. we are pretty confident that our ratios will improve and we expect better numbers in Q4. With this I would request the moderator to open the lines for Q&A.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S Padmanabhan: Sir my question is around your margins you had mentioned that there this $2 million dossier income, which is probably there. I would assume that this number would flow into your EBITDA, so if I am removing income out of your EBITDA it broadly looks like on a quarter-on-quarter basis there has not been improvement either on the absolute EBITDA or on the EBITDA margin? Is my way of looking at it right or is there something else, which I should look at?

Dr. Satyanarayana Chava: You are looking right. If there is no revenue shortfall almost like Rs.60 Crores from Q2 to Q3 our EBITDA both in absolute terms and percentage should have gone up.

S Padmanabhan: My second question is on the gross margin when I am actually going through the mix of the performance one is I am looking at oncology doing significantly better on a Q-on-Q basis as well as on a year-on-year basis why is it that the gross margins on a Q-on-Q basis is not reflecting the improvement in mix is the raw material price continuing to hurt us even on quarter-on-quarter basis? Is the price trend seems to be moving up on the raw material side?

Dr. Satyanarayana Chava: The ratio between oncology and the other products is different. Oncology is about 10% of contribution so any savings on it cannot pull up the gross margin.

S Padmanabhan: Sir my final question is around the formulation side. Can you give some idea with respect to how do you expect the traction to take place. You mentioned about an order, which is basically in tonnes, but what is it that could translate to in terms of dollar, million or rupee for us? How do we see this number as we move towards FY2020, FY2021 or so and also some color on the utilization of the formulation front so over the next two to three years how do you see the utilization going up and also if you can give some color what is the spend that we are doing on the formulation plant, which is basically not yielding any benefits as far as numbers are concerned on a quarter basis or an annual basis?

Dr. Satyanarayana Chava: The current order what we have is for the CMO product to a European customers for FY20. We expect that this product should give us close to $7 million to $8 million annual revenues and then there are additional two products for which we are currently doing validation and the commercial sales will start in the second half of FY20. That should add another $8 million to $9 million, so the CMO products itself should bring in about $15 million revenue the next financial year. When it comes to unit wise, these 3 products put together close to 1 billion units in the next financial year that translates to 20% of capacity utilization for the CMO products alone. That does not take into account our Metformin supplies to US, which is about 5% of our capacity, and we have approval for Hydroxychloroquine and we are expecting approval for TLD very soon, so we are confident that next year capacity utilization will be definitely more than 25%.

S Padmanabhan: The overall sales should be over Rs.150 Crores if you are taking the Metformin and others into consideration?

Dr. Satyanarayana Chava: That is on a very low side because the product approval what we are expecting in TLD there are very few players and market size itself today is close to $400 million right now, so we expect to do well in these products, so we are not giving any forecast, but opportunities are very large and we are perfectly poised to take that opportunity.

S Padmanabhan: Sir on the cost how much are we spending on the facility in terms of cash burn without benefits in terms of sales?

Dr. Satyanarayana Chava: Formulation spend for the nine months in FY2019 is close to Rs.120 Crores including R&D, opex and material spends.

S Padmanabhan: Sure Sir. Thanks a lot. I will joint back in the queue.

Moderator: Thank you. The next question is from the line of Hari Belawat from Falcon Investment. Please go ahead.

Hari Belawat: Good afternoon Sir. This is regarding profitability again. Your revenues have gone up by 10%, but all your other parameters like EBITDA, PAT, and PBT everything is down? The reason these appears to be because of the interest cost has gone up and depreciation cost also has gone up, so what is the reason for these interest costs going up? Have you raised any regional loan during this period? Particularly in nine months period your interest cost is Rs.15 Crores high and your

depreciation also Rs.30 Crores? Have you capitalized any of the assets or any of the plants during this period?

V.V. Ravikumar: The depreciation has gone up because we have operated three facilities when compared to the last year and there are more ANDA filings in the current year that is the reason the additional expenses have increased and we have also engaged more people to take care of the additional manufacturing facilities and coming to the interest cost we have availed in April $25 million ECB. After that we have not increased any debt. Our debt is around Rs.1,100 Crores, but if you look in the last six months time, there is a base rate interest increase of around 0.5%, which is only the refection.

Moderator: Ladies and gentlemen, the lines of the current participant seem to have dropped off. We will move on to the next participant that is from the line of Sarvari Joshi from Trivikram Consultants. Please go ahead.

Sarvari Joshi: Thanks for the opportunity. My quarter was on the EBITDA side that this quarter also the cost seemed to be quite high because of the China problem actually, so I think you had mentioned in your last presentation that we expect this to normalize from Q4, so how do we look at this going forward?

Dr. Satyanarayana Chava: We have completed backward integration and we expect from Q4 onwards our gross margins should go back to the volume level of say at least 100 basis points.

Sarvari Joshi: I think you had given a guidance of around 23% EBITDA margins in FY2020, so will that stay put the guidance of 23% around?

Dr. Satyanarayana Chava: We have not given any guidance, but if you do normalize the EBITDA our current business itself is more than 20%, so once we start selling finished dosage forms and if you look we are growing significantly in high margin business oncology, synthesis and also ingredients we are sure that EBITDA should go towards number what we are talking about.

Sarvari Joshi: Q4 also should we expect our margins to be better than Q3?

Dr. Satyanarayana Chava: In Q4.

Sarvari Joshi: Yes Q4 FY2019?

Dr. Satyanarayana Chava: Absolutely.

Sarvari Joshi: It would be better.

Dr. Satyanarayana Chava: Thank you.

Moderator: Thank you. The next question is from the line of Jeevan Patwa from Candy Floss Advisors. Please go ahead.

Jeevan Patwa: Your presentation actually mentions about TLD approval in February first week, so how big is the US market size, I think it is around some $500 million so is that correct?

Dr. Satyanarayana Chava: For TLD, there are no US sales, but the sales are in emerging markets. And right now is I am assuming the current players are selling 5 million to 6 million bottles every month so it is between $30 million and $35 million per month so it translates anywhere between $350 million to $400 million and our goal date is tomorrow, so we expect approval anytime.

Jeevan Patwa: Secondly right now how much of your total gross block is still unproductive?

Dr. Satyanarayana Chava: Roughly Rs.800 Crores.

Jeevan Patwa: By when you think you will be able to utilize that in the next two years or it may take more than that?

Dr. Satyanarayana Chava: Definitely not beyond three years.

Jeevan Patwa: Not beyond three years.

Dr. Satyanarayana Chava: No. It is definitely before three years we expect to utilize all of the assets.

Jeevan Patwa: So you are saying in FY2021 you should be definitely utilizing your entire gross block?

Dr. Satyanarayana Chava: Yes.

Jeevan Patwa: Thanks a lot.

Moderator: Thank you. The next question is from the line of Charu Lata from Dalal & Broacha. Please go ahead.

Charu Lata: My question pertains to the milestone payments in what line item is it included?

Dr. Satyanarayana Chava: It is included in sales.

Charu Lata: But sales under what category?

Dr. Satyanarayana Chava: This is in FDF Revenue.

Charu Lata: Secondly my question pertains to the new approval that you are expecting for a very large product can you repeat what the product is and the market size?

Dr. Satyanarayana Chava: It is fixed dose combination of Tenofovir, Lamivudine and Dolutegravir.

Charu Lata: How much is the market size?

Dr. Satyanarayana Chava: About $400 million right now in the ARV emerging market.

Charu Lata: What about US?

Dr. Satyanarayana Chava: In US this is a NDA. This combination is not approved in US. This is primarily meant for low and middle income countries.

Charu Lata: How many players are there currently?

Dr. Satyanarayana Chava: Currently there are three players.

Charu Lata: Fine. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Sir I was asking about this TLD approval so let us say you get the approval in the next week or so and then what is the timeline involved there so this is a $400 million market, which I understand is the LMIC market is that correct?

Dr. Satyanarayana Chava: Yes Aditya you are right.

Aditya Khemka: Tomorrow say you get approval and you get approval over the next week then what are the next steps you file for tenders, then you get award a quota, then you start supplying what is the timeline evolved?

Dr. Satyanarayana Chava: We also got approvals from many countries, so there are no road blocks for us to start selling. We have to wait for allocation of quantities from global fund and other agencies.

Aditya Khemka: Currently when you have approvals you are not selling right now is it?

Dr. Satyanarayana Chava: We are not selling.

Aditya Khemka: You are not selling, but you will sell when you get a quota from Global Funds or whatever and how much time can that potentially take? What are the lower limit and the higher limit of that timeframe to get allocation from Global Fund as well?

Dr. Satyanarayana Chava: It may be the fastest could be two weeks.

Aditya Khemka: Fastest could be two weeks and what should be the outer limit?

Dr. Satyanarayana Chava: Maybe two months.

Aditya Khemka: Two weeks to two months, so if not in next quarter then the quarter following that you should definitely have revenue coming from LMIC and TLD product given that you get approval?

Dr. Satyanarayana Chava: Yes definitely.

Aditya Khemka: Could there be any reason for which you may not get approval next week for the TLD product? It could be if they need to come back and ask you for more data potentially or could there be some sort of deficiency in your filing, so any reason for you to believe that the approval can get delayed more than a week from now?

Dr. Satyanarayana Chava: So far there are no queries pending, so we hope we should get approval as they promised.

Aditya Khemka: Currently there are two players in the market along with you are there any competitors who are also expected to get approval of TLD product?

Dr. Satyanarayana Chava: We would not know the other player's timelines.

Aditya Khemka: Are you aware of how many people have filed for approval?

Dr. Satyanarayana Chava: We believe we are fully integrated and till we get approvals so we do not know how many products. Maybe you can get three more approval in the next 12 months for sure.

Aditya Khemka: TLD product is more competitive other than you who are there?

Dr. Satyanarayana Chava: Definitely we can expect.

Aditya Khemka: In terms of cost efficiency are you are confident 100% that you are the most efficient manufacturer of the product?

Dr. Satyanarayana Chava: We believe so. In Tenofovir and Lamivudine we believe we are very cost effective and prior to this also, so we are fully integrated, so we believe we are not having any disadvantages compared to the others. We are on par with others.

Aditya Khemka: Understood Sir what sort of market share would you expect the agency to give you so you are a player right so ideally your global fund sort of agency when a new player is enrolled even if you quote the lowest price you do not begin with giving you like a 40% market share in the tender right, so they will not basically give you, because you are a new guy that is my understanding and correct me if I am wrong, so where do you think your market share in the tender could kind of it?

Dr. Satyanarayana Chava: The market is difficult to predict, but as a new entrant, I do not think they will give major share of business. We have to prove our ability to supply on time and I think they will encourage more players that is their primary motto and if you deliver on time, I think is good to expect by FY2021 we will get good share. And FY2020 is a good testing period for us, but the market is huge, so even if have small percentage is going to be significant for us.

Aditya Khemka: I appreciate that. Have you already filed for the tender with Global Fund or do you file after the approval?

Dr. Satyanarayana Chava: We have already signed the general agreement with Global Fund and our price is available with Global Fund. It is not that we have to start the process. That is already done. We have already signed supply agreements, so they have to just give orders.

Aditya Khemka: They have to just give orders, so have they indicated to you already what your market share is because you signed agreements and they would have given you some volume share indication?

Dr. Satyanarayana Chava: Not yet.

Aditya Khemka: So that they will give you after they get approval is it?

Dr. Satyanarayana Chava: Yes.

Aditya Khemka: Fair enough. Sir secondly on the TLE combination one with the Efavirenz combination how is the business on that side? What was the traction this quarter and how do you see that revenue stream developing?

Dr. Satyanarayana Chava: We Filed with FDA as well as WHO, for TLE600 in October and TLE400 in January and for TLE400 we expect the competition will be very limited and we believe we are the second or third player to get into that. With these filings, TLE600, TLE400 and TLD I think we will be in a position to play a significant role in first line.

Aditya Khemka: Right how big is the TLE400 market Sir?

Dr. Satyanarayana Chava: $150 million market size and 2 million packs roughly.

Aditya Khemka: In the US?

Dr. Satyanarayana Chava: Not in US. It is in the LMIC only.

Aditya Khemka: So this filing that you have done is with WHO for LMIC?

Dr. Satyanarayana Chava: Yes.

Aditya Khemka: So this $150 million market you believe you are again the third player and you have already got approval right?

Dr. Satyanarayana Chava: We are yet to get approval.

Aditya Khemka: You have approval, so then how much time has it taken for you to get the approval and then get the volume allocation from the WHO?

Dr. Satyanarayana Chava: We expect to get approval in nine months from WHO and this may be during this calendar year from FDA.

Aditya Khemka: So you got approval in January from WHO right?

Dr. Satyanarayana Chava: No, we filed in January.

Aditya Khemka: Sir, thanks for answering my questions.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment. Please go ahead..

Gagan Thareja: Good afternoon. Sir to start with you have pointed out to a fairly large number of future revenue streams, which we understand only at a very funny level? You have the Lamivudine facility, which becomes commercial you are having the second line of ARVs, which is coming through? You have got approvals for TLD? You will get approval for TLE600 and TLE400 and you are scaling up in your synthesis?

Could you elaborate and may be give us a little more detail so that we understand the scale of each of these opportunities and in terms of margins where do the margins sort of stand vis-à-vis the benchmark of your current corporate average margins if you could give us some idea even at a gross margin level of the new transition away from ARV and API to ARV formulations it will be very helpful?

Dr. Satyanarayana Chava: The growth is happening in oncology, but the base is small and similarly the growth is very significant in our synthesis business, which is very good margin business but again the base is also small, so in the first nine months, we did Rs.160 Crores and we expect to do very well and currently it is contributing about 10% of our revenues when oncology is also contributing close to that, so this 20% of business is definitely better margin than the ARV API for sure. And when it comes to formulation business as you were asking will be definitely better than APIs because we continue to make gross margin on APIs plus whatever gross margin possible in the finished dosage form. So whatever new growth is coming is coming with high margins.

Gagan Thareja: Let me put it this way, the onco and synthesis, which is right now 20% of your sales if you could help us with what could be the growth rates that we should expect in the coming year? This year you are ramping up your synthesis quite sharply and when you exit out into the next year you can probably maintain that level of Q4 of this year or probably higher, so should we looking at 30% to 40% sort of a growth number in your synthesis business and oncology could we still presume a 20% plus growth going into the next year?

Dr. Satyanarayana Chava: I think next year we can expect the onco business to grow 20% and synthesis is difficult to predict which molecule will go to next base, but we are very confident to grow at 25% next year although we have grown 60% this year, we can still continue to grow 25% next year.

Gagan Thareja: Around Metformin it is a fairly competitive market you probably have the competency of backward integration and the scale, so if you could give us some idea of your strategy and you aspiration around Metformin supplies in US?

Dr. Satyanarayana Chava: We do not want to get market share by crashing prices, so that is the reason we are okay to gradually increase our market share and this product for us is global. We are working with a few customers in Europe, we are working in other markets, so we want to increase our market share of Metformin globally over a period of time. It is not just a crashing prices although as we mentioned it is very completive, but we would like to increase prices, increase the market share with the growth of the market rather than cutting into somebody else market share.

Gagan Thareja: Any idea of a timeframe and a market share you have in mind an aspiration I am not talking about exactly something that will happen, but directionally where you aspire to be in this?

Dr. Satyanarayana Chava: In FY20 may be we can expect 5% to 6% market share in US.

Gagan Thareja: TEL400 you gave a market size of $150 million any idea is there a conversion happening away from 600 to 400 and how the two markets are sort of growing vis-à-vis services?

Dr. Satyanarayana Chava: We expect to TLE400 market to grow further because the side effects will be significantly less and on smaller business it can compete very well. The product can be offered at a very competitive price. So the market for TLE400 we believe should grow.

Gagan Thareja: And your approvals are nine to ten months away on these two fronts?

Dr. Satyanarayana Chava: Yes.

Gagan Thareja: On TLD if I understand it correctly, you will be partnering or you will be supplying to Aspen for the South African tender?

Dr. Satyanarayana Chava: Yes.

Gagan Thareja: And when is the tender due in South Africa?

Dr. Satyanarayana Chava: Tender was due in December, but now we are getting some feelers that they are extending the current tender until end of June 2019 and the new tender quantity will only be available for distribution in July or August. So we do not know what percentage of TEE and what percentage of TLD until the tender comes up.

Gagan Thareja: One last question from my side. In the development that is happening around ARVs, long acting ARVs like Dolutegravir plus Ritonavir are under trials and they are a quarterly dosing format. Where do you see these products in the evolution and given their dosage convenience do you see them becoming a significant market disruptor even let us say in the medium term from there?

Dr. Satyanarayana Chava: Those are still in the clinical stages, once a month Dolutegravir dosage, people would go through and follow the clinical trials closely it is very effective as a maintenance therapy than to start with. So those kinds of therapies never gained popularity in Africa. One case was Lipivir, it is very active in US and Europe but it is not in the guidelines of Africa and similarly the long acting drugs are good for maintenance therapy rather than to short-lived. So the last mile distribution will be a challenge. So we have to wait and see, but we are not really concerned the long acting will be disruptive in the LMIC market.

Gagan Thareja: Just on lamivudine if you could tell me what is the status. Your commercial facility is ready, something which could be a significant scale opportunity for you if I remember it correctly.

Dr. Satyanarayana Chava: It is already operational and in Q4 we will sell commercial quantities.

Gagan Thareja: Q4 onwards. Can you just remind me the size of the capacity of this facility that you have in lamivudine?

Dr. Satyanarayana Chava: The installed capacity is 700 tons per year.

Gagan Thareja: Optimal utilization can be achieved over what timeline here?

Dr. Satyanarayana Chava: See, if you want to really look at the opportunities there, if we do 30% capacity utilization itself that block will be highly profitable.

Gagan Thareja: Thank you Sir. I will join back the queue. If possible I will ask questions. Thank you.

Moderator: Thank you. The next question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: Thanks for taking my question. Sir, I have three questions related to our business. First is related to the tender market. So there are many tenders for ARV globally. I believe the Global Funds, PEPFAR and South Africa are the bigger ones, but how are we going to, we would be participating in most of the tenders or we would be only participating in the larger tenders going ahead?

Dr. Satyanarayana Chava: We are not participating in any South African tenders. So we are switching to our earlier class supplying APIs to South African market. That is 25% of the market in ARVs in South Africa about 5 million patients. In the other markets, we will continue to supply API, and also continue to participate in tenders.

Amey Chalke: But are we participating other than PEPFAR and Global Funds in South Africa?

Dr. Satyanarayana Chava: South Africa, we are not participating. We will participate not only in Global Fund, PEPFAR, but also other in-country tenders depending on our approval.

Amey Chalke: And second question is on US like since IPO our strategy has changed a bit, we were planning for a few partnered products at that point of time I believe some of them we have the partnership has been taken back or we have taken this products with us, so how things will move going ahead, how many filings we would be doing, how many launches we are expecting over one next year and year after that and what kind of product launches we should expect in terms of competitive landscape?

Dr. Satyanarayana Chava: We are not signing any new partnership products. We have one product pending in our partnership deal, but some products we took back like Metformin, HCQ when we filed it was a partnered product, now they are transferring ANDA to us, so we expect to launch two more products in FY2020 for which we have got one tentative approval and we expect one more approval.

Amey Chalke: On debt reduction, what is our guidance? How the debt levels should be over next one year and what kind of capex plan we have?

Dr. Satyanarayana Chava: Capex plan wise, this year is above Rs.300 Crores, but next year we do not have any serious capex plans, but it will be to the tune of Rs.150 Crores including our maintenance capex. It will be significantly less than this year and next year.

Amey Chalke: So should we expect that to come down considering other facilities would be ramping up and the cash flows would be good for next year?

Dr. Satyanarayana Chava: We can definitely say our capex next year and thereafter will be definitely less than our depreciation.

Amey Chalke: Thank you Sir for taking my question.

Moderator: Thank you. The next question is from the line of Sarvari Joshi from Trivikram Consultants. Please go ahead.

Sarvari Joshi: Thanks for taking my question again. My question was related to the effective tax rate. I think this quarter the effective tax rate was lower around 22%, so what would be the reason for this and what tax rate we should we expect going forward?

V.V. Ravikumar: Going forward our tax rate will be around 27%, 28%, but this time the tax rate is 22% is because of our benefits from Unit 2 which is under SEZ, and hence the rate is on the lower side.

Sarvari Joshi: Okay, but going forward it should be around 27%, 28%?

V.V. Ravikumar: Yes, 27%, 28%.

Sarvari Joshi: Thank you.

Moderator: Thank you. The next question is from the line of Jeevan Patwa from Candy Floss Advisors. Please go ahead.

Jeevan Patwa: Sir you actually said that on the formulation side next year 20% capacities booked by one customer in CMO side and there you said you are expecting somewhere around $15 million revenue from the clients, so can we assume that on the 100% capacity, the revenue from the formulation facility could be somewhere around $70 million, #75 million or is it not a linear it would be different?

Dr. Satyanarayana Chava: It is definitely not linear. So we cannot calculate that way.

Jeevan Patwa: Okay, so you are saying dependent upon the product it could be higher or lower?

Dr. Satyanarayana Chava: It could be definitely higher.

Jeevan Patwa: Secondly on the US side, can you just give some guidance on the next two or three years, how you are going to planning about the US market, for how many launches you are basically expecting in the US in the next two to three years and what would be the kind of market sizes in there?

Dr. Satyanarayana Chava: We have three approvals right now. We expect two more approvals in the next financial year and then depending on filings. Our filing itself 10 products some of them are PARA IVs.

Jeevan Patwa: Okay, these two products that you are talking about next year, how big would be the market for those products?

Dr. Satyanarayana Chava: One is a brand product for which we have received a Tentative Approval the market size is good. And the other product is already generic, but still volumes are good, so these are two very important products for us, and for both products we make APIs in house.

Jeevan Patwa: Third thing is few years back when you were a pure API player that time your margins were somewhere more than some 20% right, so can we expect that when we move towards the formulation, it would definitely higher than those?

Dr. Satyanarayana Chava: Even if you do a normalized EBITDA right now leaving all our future based investments and their opex, so even today our EBITDA is little over 20%. So when our formation business revenue start coming in, and our growth which is also coming from high margin businesses like oncology APIs, CMOs and Synthesis, it is quite logical to expect that EBITDA margins should improve.

Jeevan Patwa: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Gautam Shah, an Individual Investor. Please go ahead.

Gautam Shah: Good evening Sir. Thank you for taking my question. If I understood correctly, we have participated in tenders through Aspen for South Africa and the products are TLD and TLE, is my understanding correct?

Dr. Satyanarayana Chava: We are not participating in any South African tenders, but our partner in South Africa got approval for TLD, where we are their CMO. So our facility was approved for TLD South Africa, based on our partner filings.

Gautam Shah: Okay. Thank you and my second question was regarding WHO filing, I think we have already find six WHO dossiers, so do we expect any revenue business coming in next financial year?

Dr. Satyanarayana Chava: All these are antiretroviral products filed with WHO. We definitely expect three approvals in the next nine months.

Gautam Shah: Okay. My last question will be regarding the product that we have just received approval of Hydroxychloroquine, what percentage of this market do we expect to capture in this particular product in US?

Dr. Satyanarayana Chava: We would not have a number right now, but we still we need to wait and talk to the distributors and see how much we can get, but we are doing commercial production already in anticipation of getting some orders.

Gautam Shah: Thank you so much.

Moderator: That was the last question. I now hand the conference over to the management for their closing comments.

Dr. Satyanarayana Chava: Thank you everyone for participating in this investor call and for your insightful questions and I am sure we will try to meet your expectations from Q4 onwards. Thank you.

V.V. Ravikumar: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kotak Securities Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.